

MARINE ENVIRONMENT PROTECTION  
COMMITTEE  
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Agenda item 5

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## REDUCTION OF GHG EMISSIONS FROM SHIPS

### Draft legal text on uses of financing generated from a maritime MBM

Submitted by the World Wide Fund for Nature (WWF)

#### SUMMARY

*Executive summary:* This document presents a first draft legal text for the Rebate Mechanism add-on option for a revenue-generating MBM. This draft is provided with the aim of assisting the MEPC in its tasks, in particular in considering equitable uses of financing generated from an MBM.

*Strategic direction:* 7.3

*High-level action:* 7.3.2

*Planned output:* 7.3.2.1

*Action to be taken:* Paragraph 9

*Related documents:* MEPC 60/4/55; MEPC 61/5/33, MEPC 61/INF.2; GHG-WG 3/3/3, GHG-WG 3/3/11; MEPC 62/5/1, MEPC 62/5/14; MEPC 63/5/6 and MEPC 63/23

#### Introduction

1 MEPC 63 invited further submissions on proposed Market-Based Measures (MBM), and on climate finance and possible uses of MBM revenues.

2 A first draft of a potential legal text on uses of financing generated from an MBM was developed in the form of additions to a potential convention for a revenue-generating MBM (hereinafter the convention). The text is based on the Rebate Mechanism add-on proposal, which may in principle be integrated with any revenue-generating MBM, including the ETS and the GHG Fund.

3 Without prejudging the potential MBM and any future proposals, WWF provides this draft legal text with the aim of assisting the MEPC in its tasks. The draft additional text to a potential convention is set out in the annex to this document.

### **Additions to articles**

4 Additional definitions to the convention are provided in article 2 as set out in the annex.

5 An additional article on entitlements is to be added, in order to establish a Party rebate, cooperative contribution, and credit for mobilized finance as set out in article 4 in the annex.

6 Some proposals, including the ETS and the GHG Fund, would require an additional obligation within a relevant article, to ensure that sufficient revenue is raised to cover the rebates to countries. The IMERS (RM integrated) proposal would not require such an addition, as the rebates are integrated in its design.

### **Additional regulations**

7 A small number of additional regulations would also be required, namely for calculating of various keys and entitlements for Parties, as well as a regulation to disburse the rebates to Parties. The draft regulations are set out in "annex B" to the convention as set out in the annex.

### **Conclusion**

8 The draft legal text for the rebate mechanism add-on option is provided with the aim of assisting the MEPC in its tasks, in particular in considering uses of financing generated from a maritime MBM in order to promote fairness and efficiency in addressing the collective challenge of mitigating and adapting to climate change.

### **Action requested of the Committee**

9 The Committee is invited to consider the proposal provided in this document and to take action, as appropriate.

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## ANNEX

### DRAFT ADDITIONAL TEXT TO BE INCORPORATED INTO A POTENTIAL MBM CONVENTION

#### Article 1 – General Obligations

1 Revenue resulting from the implementation of this convention shall be used to support global action on climate change, including in the maritime sector, taking into account equity and national circumstances of various countries, to the extent defined by this convention.

#### Article 2 – Definitions

1 "Apportioned rebate" means an amount of money that is apportioned to a Party.

2 "Cooperative contribution" means an amount of apportioned rebate foregone by a Party and contributed to international cooperation.

3 "Actual rebate" means an amount of apportioned rebate actually taken or received by a Party to this convention.

4 "Maritime finance" is international financial resources destined to accelerate reductions of greenhouse gas emissions from the international maritime sector globally.

5 "Climate finance" is international financial resources destined to developing countries to assist them in mitigating and adapting to climate change, pursuant to the relevant provisions of the UNFCCC and other relevant agreements.

6 "Credit for mobilized finance" means the amount of money that a Party is credited with as its contribution to mobilizing climate and maritime finance.

#### Article 3 – Purpose (or similar)

1 To promote fairness and efficiency in addressing the collective challenge of mitigating and adapting to climate change.

#### Article 4 – Entitlements

1 Each Party not included in annex II of the UNFCCC, or any successor annex, shall be eligible to an apportioned rebate, calculated in accordance with the regulations in the annex to this convention, and shall obtain the rebate unless paragraph .2 applies.

2 Cooperative contribution:<sup>1</sup>

##### *Option 1*

.1 Any rebate-eligible Party may decide to forego its apportioned rebate, or part of the rebate, as its contribution to international cooperation.

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<sup>1</sup> Two options are proposed; option 2 expands on option 1, through the rebate-eligible high-income countries foregoing their apportioned rebates; the high-income categorization is provided by the World Bank.

- .2 Each such Party shall record its decision in advance in annex A to this convention, and shall be recognized for its decision and the amount contributed.

**Option 2**

- .3 Each rebate-eligible high-income Party undertakes to forego its apportioned rebate, and any other rebate-eligible Party may decide to forego its apportioned rebate, or part of the rebate, as its contribution to international cooperation.

- .4 Each such Party shall record its decision in advance in annex A to this convention, and shall be recognized for its decision and the amount contributed.

3 Parties included in annex II to the UNFCCC, or any successor annex, shall not be eligible for rebates.

4 Credit for mobilized finance

- .1 Each Party not eligible for a rebate shall be credited for finance mobilized through this convention, calculated in accordance with the regulations in the annex.

**Article 5 – Allocation of revenues**

1 After apportioned rebates to countries have been deducted, the remaining revenue raised (net revenue) shall be used as follows, subject to the specific decisions of the Assembly:

- .1 (details on the use/allocation of revenues as per a given proposal).

2 The cooperative contributions shall be used for international cooperation and shall be allocated as per a specific decision of the Assembly.

**Article 6 – Sufficiency of revenues**

1 GHG Fund – Size of Contributions:

- .1 Furthermore, the size of the contribution shall be set at a level that ensures sufficient revenue to cover the apportioned rebates to Parties, to the extent defined by this convention, in addition to other uses of the revenue.

2 ETS – The Fund:

- .1 Furthermore, the Parties shall ensure that sufficient revenue is raised to cover the apportioned rebates to Parties, to the extent defined by this convention.

ANNEX A (to the convention; illustrative)

**Cooperative Contributions**

<b>Party</b>	<b>Cooperative contribution (percentage of apportioned rebate)</b>
X	100
Y	100
Z	100
XX	80
YY	50
ZZ	50

ANNEX B (to the convention)

**REGULATIONS**

Note: Any text placed in a box, as this one, is explanatory.

**CHAPTER 1 – GENERAL PROVISIONS**

**Regulation 1-1 – Definitions**

- 1 "Rebate key" means a key that shall be used to calculate the apportioned rebate.
- 2 "Credit key" means a key that shall be used to calculate the credit for climate and maritime finance mobilized.

Specific addition to a levy-based proposal, i.e. GHG Fund, or IMERS (RM integrated)

- 3 "Gross revenue" means the total of payments received by the Fund from the ships subject to this convention over a given time frame.
- 4 "Gross cost" shall be deemed equivalent to gross revenue.

Specific additions to the ETS

- 3 (ETS) "Gross revenue" means the total revenue from auctioning of shipping emission units under this convention.
- 4 (ETS) "Gross cost" means the total cost of surrendered emission allowances by the ships subject to this convention over a given timeframe, including the auctioned shipping emission units and emission allowances acquired above the shipping emission units issued.
- 5 (ETS) Gross costs shall be calculated as follows:

*gross revenue x multiplier.*

Wherein the multiplier shall be calculated as follows:

*amount of surrendered emission allowances / amount of auctioned shipping emission units.*

## CHAPTER X – ENTITLEMENTS

### Regulation X-1 – Rebate and credit keys

1 The rebate key for a Party entitled to a rebate as per article [4.1] shall be calculated as the Party's share of global seaborne imports, selected as a proxy for the economic impact on the Party, excluding any short-term and long-term benefits, arising from this convention.

2 The credit key for a Party entitled to the credit for mobilized finance as per article [4.4] shall be calculated also as the Party's share of global seaborne imports.

3 The Party share of global seaborne imports shall be calculated annually for all Parties according to the guidelines established by the Assembly:

- .1 Said Party share may be calculated as a country's share of value-distance of global imports from non-adjacent countries.

**Note:**

The country's share of value-distance of global imports from non-adjacent partners can be calculated from the results based on value of imports, provided in document MEPC 62/5/14 (for 2007). For instance, they can be calculated using a "distance compression" approach reflecting the empirical findings that doubling the distance led to an increase of maritime freight costs by a much smaller factor.

### Regulation X-2 – Apportioned and actual rebates, and cooperative contribution

1 The apportioned rebate and actual rebate for a Party referred to in article [4.1] shall be determined annually for the previous year according to the following formulas:

*Apportioned rebate = the gross cost x the country's rebate key*

*Actual rebate = Apportioned rebate*

2 The apportioned rebate, cooperative contribution, and actual rebate for a Party referred to in article [4.2] shall be determined annually for the previous year according to the following formulas:

*Apportioned rebate = the gross cost x the country's rebate key*

*Cooperative contribution = Apportioned rebate x Contribution factor*

*Actual rebate = Apportioned rebate – Cooperative contribution*

wherein the Contribution factor is provided in annex A for each relevant Party.

### Regulation X-3 – Credit for mobilized finance

1 The credit for mobilized finance for a Party referred to in article [4.3] shall be determined annually, for the previous year, in relation to the country's credit key and a share of net revenue raised that is allocated to climate and maritime finance, defined in article [5.1].

If all net revenue is treated as/allocated to climate and maritime finance, and the gross revenue equals gross costs (for instance for a levy), the credit shall be calculated as follows:

*Credit = the gross revenue x the country's credit key*

## **CHAPTER Y – GOVERNANCE AND ADMINISTRATION**

### **Regulation Y-1 – Disbursement of rebates**

1 The Secretariat shall transfer to each rebate-eligible Party the country's actual rebate for a year, by 30 April of the following year. The actual rebate shall be calculated in accordance with regulation X-2.

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